



UNIVERSITAS INDONESIA

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RITS 立命館大学  
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“中国的崛起与东亚区域关系的未来” 国际研讨会

International Conference  
on  
“The Rise of China and the Future of Regional Affairs  
in East Asia”

March 1<sup>st</sup>, 2012

9 a.m. to 5 p.m.

Seminar Room 6<sup>th</sup> Floor  
University Library  
Universitas Indonesia, Depok, Indonesia



# FOREWORD

Greetings!

Welcome to Universitas Indonesia 2012 International Conference on topic “The Rise of China and the Future of East Asian Regional Affairs”. We are very glad to present you this international conference on one important and interesting topic in Asia recently. The rise of China to great power status is currently underway and the major powers and neighboring states are seeking for appropriate policies in response. It remains questioned whether or not the policies or responses will support the new shape of international and regional order that accomodate China’s rise. This conference provides a discussion on the topic.

As a part of a completion of an international collaborative research, this conference is made possible by the support of many institutions and partners. This conference is funded by the Directorate of Research and Social Responsibility as a part of research funding scheme, without which it would not be possible. Additional funding support also came from Mbah Jingkrak Restaurant for food and beverages during the conference and a generous fund from Makara Mas. For all of the financial support, we would like to express our greatest appreciation.

We would like to thank also every speaker for their participation in this conference. Some of the speakers come a long way from overseas to share their opinion and studies in the conference, such as from China, Japan, and Philippines. Without their participation, this conference would not be an international one. Special thanks we would like to address to Dr. Rizal Affandi Lukman (Deputy Minister for International Economic and Financial Cooperation, Coordinating Ministry of Economic Affairs) and H.E. Mr. Liu Quan (Minister Councillor, Embassy of the People’s Republic of China) for participating here. We believe that their speech will stimulate interesting debates and discussions during the conference. Last but not least, we also would like to thank all the participants for their participation in this conference. We hope that this conference contributes to the discourse on the topic and provides you with caveats for further study in the future.

With best regards,



Prof. Amir Santoso, M.Soc.Sc., Ph.D



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## Schedule of Events

09:00 – 09:30	Opening Session: Registration + Coffee Morning
09:30 – 10:00	Welcome Remarks: Prof. Dr. Bambang Shergi Laksmono, M.Sc. (Dean of the Faculty of Social and Political Sciences of UI)
10:00 – 11:45	Policy Address: 1. H.E. Mr. Liu Quan (Chargé D'affaires, Minister Counselor, Embassy of the People's Republic of China) 2. Dr. Rizal Affandi Lukman, M.A. (Deputy Minister for International Economic and Financial Cooperation, Coordinating Ministry of Economic Affairs, Republic of Indonesia)
Chairman 11:45 – 12:15	Jona Widhagdo Putri, B.A., M.A. Discussion
12:15 – 13:15	Lunch and break
13:15 – 17:00	Panel Discussion
13:15– 14:15 Presenters	1 <sup>st</sup> Session on Economic issues: 1. Prof. Zhu Caihua (China Foreign Affairs University) 2. Prof. Keiji Nakatsuji (Ritsumeikan University) 3. Tirta N. Mursitama, Ph.D., and Pamungkas Dewanto (Institute for Business and Diplomatic Studies, Bina Nusantara University and Dept. of International Relations, UI)
Chairman 14:15 – 15:00	Jona Widhagdo Putri, B.A., M.A. Discussion
15:00 – 16:00 Presenters	2 <sup>nd</sup> Session on Defense and Political issues: 1. Prof. Jun Honna (Ritsumeikan University) 2. Prof. Yang Baoyun (Peking University) 3. Lucio B. Pitlo III (University of Philippines) 4. Broto Wardoyo, S.Sos., M.A. (Dept. of International Relations, UI)
Chairman 16:00 – 16:45	Meidi Kosandi, S.IP., M.A. Discussion
16:45 – 17:00	Conclusion and Closing Remarks: Prof. Amir Santoso, M.Soc.Sc., Ph.D (Head of Department of Political Science, UI)





## **The Political Economy of China Policy Towards Southeast Asia: Rethinking China Infrastructure Aid Project in Southeast Asia in the 21<sup>st</sup> Century<sup>1</sup>**

Tirta N. Mursitama<sup>2</sup> and Pamungkas A. Dewanto<sup>3</sup>

### **Introduction**

Infrastructure has been the remaining problem of developing world. World Bank has ever calculated that 1.2 billion people have no power, 1.2 billion people lack access to safe and portable drinking water, and 2.4 billion are affected by inadequate sanitation and the diseases it spreads. Unfortunately 85 percent of world populations are residing in the developing countries. Conversely, infrastructure's share of many developing countries' budgets is shrinking; donor support is below past levels, and private investment in infrastructure in developing countries is also declining.<sup>4</sup> The World Bank has ever examined that 75 percent of the people are living in a fertile soils. Unfortunately, the lack of government's policy to support the cultivating process by increasing infrastructure procurement has harmed the development process itself.<sup>5</sup>

It has been a concern of many economists that donor countries have emerged beyond criteria prescribed in the Organization of Economic and Cooperation Development (OECD). The term called 'emerging donors' has been emerging as its number of aid programs substantially developed exceeding that of member countries of OECD Development Aid Committee (DAC).<sup>6</sup>

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<sup>1</sup> Submitted to the International Conference on "The Rising China and the Future of East Asian Regional Affairs", Depok, March 1 2012, co-hosted by Universitas Indonesia and Ritsumeikan University, Japan. Please do not quote without our permission.

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<sup>4</sup> "Public Private Partnership in Infrastructure", Accessed from <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/WBIPROGRAMS/PPPILP/0,,contentMDK:20271509~menuPK:461109~pagePK:64156158~piPK:64152884~theSitePK:461102,00.html>.

<sup>5</sup> Bhayu Purnomo and Parijono, "Perkembangan Ekonomi Internasional", *Fiscal Policy Agency, Ministry of Finance*, (Jakarta: PKKSI, 2009) p. 9.

<sup>6</sup> Julie Walz and Vijaya Ramachandran, "Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance", *CDG Working Paper No. 273*, (Washington: Center for Global Development, 2011), p. 1.

**Table 1. The Amount of Foreign Aid Home Countries  
in Categorization of DAC and Non DAC Member Countries (in USD million)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>All donors Total</b>	10303.49	10265.3	11185.16	17612.42	15406.12	15967.58	20161.07	27180.19	25724.15
<b>DAC Countries Total</b>	6366.94	6242.25	6538.57	12563.04	10604.13	11235.6	12239.42	19513.77	15344.17
<b>Non-DAC Countries, Total</b>	1.1	2.62	5.39	10.27	9.26	50.5	45.34	74.27	245.53
<b>Multilateral, Total</b>	3935.45	4020.43	4641.2	5039.11	4792.73	4681.48	7876.31	7592.15	10134.45

Source: Statistics Generated by the Author from QWIDS OECD (2011)

China rise in the current decade has been signaled by the spread of stronger economic ties with its partners. The 2008 Global Financial Crisis has become the principle factor for China to further bind its mighty economy with Southeast Asia, the most decoupled region to such contagious effects of global crisis.<sup>7</sup> Together with ASEAN, China has also made substantial agreements in trade, monetary arrangement, as well as Foreign Direct Investment (FDI) and Infrastructure aid.

However, China's fundamental openness to the world economy has been notably marked by its accession to the World Trade Organization (WTO) in 2001. In its long path of systemic reform in economic sector, which has been started since Zhu Rongji's administration, was reached substantial stimulus under its membership in the WTO. The Chinese leaders was very conscious that the importance of ensuring access to key foreign markets would appear under its accession. Furthermore, WTO entry is a manifestation of a key shift in perceptions of the relationship between embedded domestic interests and the global economy. Whilst the original strategy of re-engagement was originally designed to protect domestic producers from market competition, and in

<sup>7</sup> As it is proved from the 2008 Global Financial Crisis and the ongoing European Credit Default threat have not been extremely impacting to Southeast Asian emerging countries.



part at last, WTO compliance reforms have been used as a tool to enforce reform on sceptical and resistant domestic actors.<sup>8</sup>

This paper focuses on ASEAN-China economic cooperation in infrastructure sector. Since 2007, China has significantly been increasing its foreign aid. Financial Times noted that in two consecutive years started from 2009, China has lent more money to developing countries than World Bank.<sup>9</sup> Due to the large scale economic project of China in Southeast Asia, this paper tries to figure out how China shape its long-term interest in providing this facilities to Southeast Asia. In its aid project, China is not only giving a "no-string-attached" aid,<sup>10</sup> but also taking part in infrastructures projects that connect suburban area to a primary center of growth in the recipient countries so that guarantee accesses to the mobility of goods and services through better facilities.

Southeast Asia as the largest actor in building official agreement with China (through ASEAN-China Free Trade Agreement), provides a good substitutions and complementary goods and services for China economy, in terms of labor, raw material, and energy. In relation to this, China-backed projects, The Great Mekong River (GMR) Project, the high speed connecting railways, the giant toll road and a pilot project of bridge accross Sunda Strait, etc. must have a conditionality that mutually beneficial. China also has substantial technological development which gives greater incentive for its engineering capacity in promoting further stage of development for its infrastructure industry exports (Zhenming, 2010).

By reviewing the previous existing practice of China infrastructure policy towards African countries, this paper tries to seek the motive and model of China extensive infrastructure aid in Southeast Asian countries. In brief, this paper hypothetically presumes that the increase of China infrastructure aid projects in Southeast Asia has a beneficial impact on China's national economy. Southeast Asia itself can be improving its bargaining position to China in creating more infrastructure proposals. Therefore, this infrastructure projects play significant role as China's diplomatic roles in contributing both her domestic economics and ASEAN economic as a whole.

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<sup>8</sup> Shaun Breslin, *China and the Global Political Economy*, (Hampshire: Palgrave MacMillan, 2007), p. 83

<sup>9</sup> Accessed from <http://www.ft.com/intl/cms/s/0/488c60f4-2281-11e0-b6a2-00144feab49a.html#axzz1K7OAEwSx>, Friday, October 28<sup>th</sup>, 2011.

<sup>10</sup> This is how American policy makers mentioned China Aid as it doesn't have a particular structural adjustment program in the implementation of the aid. Jonathan Weston, Caitlin Campbell, and Katherine Koleski, "China Foreign Assistance in Review: Implication for the United States", *US-China Economic and Security Review Commission Staff Research Backgrounder*, (September, 2011), p. 1.

Hence the theory of Positive-Sum Game can be applied in describing the interaction between China and Southeast Asia in term of Infrastructure.

This research aimed to contribute in further inquiries on whether this pattern of China's diplomacy towards Southeast Asia is new and effective way as part of her comprehensive development stages domestically. We argue that by taking infrastructure aid project as China's diplomatic role, the China's government has learned a similar way conducted by her neighbour in East Asia. To some extent, China seems to go further compare to Japan and South Korea and to search for better success by capitalizing her advantageous as one of the strongest economies in the world.

#### **China infrastructure aid donor to Africa and other regions**

China had started to engage in foreign aid policy before its open-door-policy undertook in 1979. Since 1954, China had transferred money for infrastructure support in Africa. This policy was considered to improve prior to its legal seat in the United Nations in 1971. China claims that it was then started to flow money throughout the developing regions, such as funding the Tanzania-Zambia Railway project (TAZARA).<sup>11</sup> From the outset, China also tried to concern on the technical assistance it executed beside its financial aid. In concern of effectively succeeding projects, China tended to consolidate the achievements of existing productive projects, China conducted multi-form technical and managerial cooperation with recipient countries, such as managing aid projects on behalf of recipient countries, lease management and joint ventures.

In the local blog in which listed China's giant infrastructure projects in 2011, it is noted that China becomes one out of 32 countries who signed an agreement for the construction of highways to span the continent and reach Europe. China has a strong concern in Africa as its natural resources abundant. The main lack of infrastructure has also ignited China to create a comprehensive projects within this region. It has proved that China not only facilitated the construction of several mining projects, but also modernizing transportation system in support of the export-import of the products.

In Nigeria, China Civil Engineering Construction Corporation (CCECC) and the Nigerian Ministry of Transport signed Monday agreements in the Hilton Hotel in Abuja, the capital of Nigeria,

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<sup>11</sup> Information Office of the State Council – The People's Republic of China, "*China's Foreign Aid: White Paper*", (April, 21<sup>st</sup>, 2011), p.2



on building a 186.5-km modernized railway costs USD 850 million.<sup>12</sup> China is negotiating with Gabon to construct Belinga iron ore worth USD 2.7 billion; furthermore it won bids in 2008 worth USD 4.24 billion to build a 352-kilometre west-to-east coastal railway and a south-to-west railway that would facilitate the transportation of iron ore from the southern city Sebha to Misurata.<sup>13</sup> In Russia, the so-called Baltic Pearl development will occupy over 200 hectares (495 acres) to the southwest of the city's port area; it will contain housing as well as commercial and recreational objects. It was committed to be financed by a consortium of firms based in Shanghai, China, the project reflects growing political cooperation between the Russian and Chinese governments; it also parallels an increase in economic partnership, including the growing use of Chinese labor.<sup>14</sup> This projects worth USD 1.3 billion. China also doing an ongoing construction project in the Algerian East-West highway. Algeria is one of the region's major oil exporters. Out of the total 1,216km, the Algerian Ministry of Public Works contracted China's CITIC-CRCC to construct 528km, the longest stretch of highway, in 2006. Their contract was worth \$6.2 billion of an overall \$11.4 billion projected cost.<sup>15</sup>

Idun-Arkhurst and Laing in its Africa practice report entitled *"The Impact of Chinese Presence in Africa"* argued that Chinese are seeking the oil and industrial raw material in Africa. They compiled data and found that within the decade of 1990 to 2000, China's combined share of world's consumption of aluminum, copper, nickel and iron ore more than increased from 7 percent to 15 percent and has been rapidly growing.<sup>16</sup>

In order to succeed its relations to Africa, China designed levels of cooperation. Primarily, in creating a supporting environment in the governmental relations, China's strategy in Africa laid on strong elites lobby. Chinese official makes use of high-powered official visits and a triennial Forum on China-Africa Cooperation (FOCAC), to court and cultivate African elites.<sup>17</sup> PM Wen Jiabao in the

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<sup>12</sup> Accessed from [http://english.china.com/business/foreign\\_trade/11021616/20100320/15862889.html](http://english.china.com/business/foreign_trade/11021616/20100320/15862889.html), on Sunday, December 11th, 2011.

<sup>13</sup> Accessed from <http://www.reuters.com/article/2011/03/02/chinarailway-idUSTOE72100Q20110302>, on Sunday, December 11th, 2011.

<sup>14</sup> With the geographical approach, China's negotiation to the construction building raised Russians protests due to the presumption that the site will be occupied with poor Chinese labor, see Megan Lori Dixon, *"The Baltic Pearl in the Window to Europe: St. Petersburg's Chinese Quarter"*, a Dissertation submitted in partial fulfillment of the requirements for the Doctor of Philosophy degree in the Department of Geography, University of Oregon (2008).

<sup>15</sup> Accessed from <http://www.majalla.com/eng/2010/12/article55217659>, on Monday, December 12th, 2011.

<sup>16</sup> Isaac Idun-Arkhurst and James Laing, *"The Impact of the Chinese Presence in Africa"*, *JETRO London Report*, April, 26<sup>th</sup>, 2011, p. 2.

<sup>17</sup> *Ibid.*

4<sup>th</sup> Ministerial Conference held in Cairo in November 2009 declared that China has eight new measures in enhancing cooperation with Africa. These eight measurement are accompanied with a numerical indicators which in advanced will be implemented in the African land including commitment to ease the climate change impact, empowering science and technology cooperation, building a credible financing capacity within region including a debt swap agreement, widening the outreach for African goods in Chinese market, further cooperation in agriculture, health, education and cultural exchange between two parties.<sup>18</sup>

Africa is a region which enormously has a spreading underdeveloped society. Combining with the semi-authoritarian governance, Africa is convincingly an unstable region. Under this circumstances, China is getting through creating many of agreements with the government. With the minimum precondition of democratic society, free presses, and stuck human resources, people are not integrated in the government policies. Therefore, elite lobby, as it noted before is a clearly targeted way for the Chinese government to easily access Africans raw materials supply.

### **China Infrastructure Aid in Southeast Asia**

If African countries are lacked of democratic governance as well as its society, Southeast Asia is increasingly an emerging world's most influencing regions. In 2010, China has officially eased its trade barriers together with ASEAN countries under ASEAN-China Free Trade Agreement. In regards to infrastructure development in this neighboring regions, China's committment to development is not only formulated on papers. Chinese government is committed to increase a USD 10 billion on China-ASEAN investment cooperation fund last year for infrastructure, energy, resources, informations and communications projects in the given region.

From the data examined from Indonesian Treasury and related councils, it is discovered that most of China aid for development projects in Indonesia have been focusing on the transportation infrastructure and other mining and energy facilities. Under this inquiry, China has committed to support Jati Gede Dam project in Indonesia with total value of USD 215 million effective within six years (2007-2013).<sup>19</sup> China has also completed a loan in the Construction of Labuan Angin Coal fired Steam Power Plant (2 x 115 MW) Project worth USD 183 million. In the aviation sector, China has

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<sup>18</sup> Accessed from <http://www.focac.org/eng/lttda/dsfbzjhy/t625619.htm>, on Monday, December 12, 2011.

<sup>19</sup> Attachment of, "Report of Existing Aid and Loan: Q2, 2011", *Directorate General of Debt Management – Ministry of Finance Republic of Indonesia*, (Jakarta: Kementerian Keuangan, 2011), p. L-29.



made a loan disbursement agreement with Merpati Nusantara Airlines, Indonesia airlines, due to procurement for aircraft for national air bridge project worth USD 282 million.<sup>20</sup>

Instead of declaring an even greater financial aid to the developing countries, China has currently become a reasonable destination for infrastructure aid proposals addresses. Beforehand, Taufik Widjoyono, the Head of Planning Bureau, Indonesian Infrastructure Ministry, had proposed at least 10 projects to raise loan from China. These proposed infrastructure projects are Dam Projects in East Nusa Tenggara worth USD 125,9 million; Pandanduri Dam in West Nusa Tenggara worth USD 52,74 million; Jambo Aye Road at Aceh Province worth USD 36 million; Panajam Bridge at East Borneo worth USD 50,43 million; Solo-Kertosono Toll Road across Central Java to East Java worth USD 300 million; general Bridge Reparation worth USD 45 million; Water Supply and Sanitation in Bandung, West Java Province, worth USD 30 million; and two other technical and consultation funds worth USD 43 million.<sup>21</sup> Indonesian Government also prefers to access China's funding even the interest rate applied in China loans are greater than other countries but it less than interest offered in private banking loan, around 0.4% to 0.7%.<sup>22</sup> In the current six years, China's portion of infrastructure funding in Indonesia accounted 3.56% of total foreign debt on infrastructure funding. This number is notably small, but it is predicted to be getting larger. Moreover, The People's Republic of China has also signed loans to several projects in the defense sector in Indonesia, both directly to the Indonesian Army, Naval, and Air Force institutions and through Indonesian Ministry of Defense.

According to Zhu Zhenming, China's contract on engineering sectors have been divided its focus from West Asia and North Africa to East Asian and Southeast Asian markets due to the Gulf War at the end of 1990's.<sup>23</sup> Several contracts in CMLV<sup>24</sup> is obtained from Zhenming's writings. Zhenming's findings also shows that China is by far seriously developing its export contract enterprises and in this notion, its foreign infrastructure aid not only involves the sole raw materials and energy security policy, but also incentives to the local State Own Enterprises. In Myanmar, for

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<sup>20</sup> *Ibid.*

<sup>21</sup> Interviewed by Mia C. Dinisari, "10 Proyek Diusulkan Didanai China: Penandatanganan Pinjaman Setelah Lelang", *Bisnis Indonesia Daily*, (May 20th, 2011), p. 11.

<sup>22</sup> *Ibid.*

<sup>23</sup> Zhu Zhenming, "China's Foreign Economic Cooperation for CMLV: Contract Engineering in CMLV", in *Japan and Korea with the Mekong River Basin Countries*, edited by Mitsuhiro Kagami, (BRC Research Report No.3, 2010), Bangkok Research Center, IDE-JETRO, Bangkok – Thailand, p. 86.

<sup>24</sup> Abbreviation of Cambodia, Myanmar, Laos, and Vietnam

example, the Paung Laung Hydro Power Project, which is the largest in terms of foreign economic and technical cooperation in Yunnan province and also the largest export of complete set of equipment and technology. The total of contract value is USD 170 million and conducted by Yunnan Machinery and Equipment Export Import Co., Ltd on a Chinese government seller's credit basis. The other is Hydropower Station in Ruili River worth USD 47 million, Mintha Hydropower Station worth USD 14 million, and several other projects.

In Vietnam, as of September 2006, the total amounts of total engineering contracts signed by China and Vietnam has reached USD 3.94 billion. During January-October 2008, both have signed another USD 3.1 billion contract. There are at least 10 projects from this contracts. Therefore Vietnam becomes the second largest China's foreign contract of engineering. In Cambodia also has strong relations to China's infrastructure industries. As of August 2006, the total amounts of engineering contracts signed by the governments reached USD 870 million. China's government has claimed that there are at least 21 projects in Cambodia that is conducted by Chinese companies. Lastly, Zhenming noted in Laos, China also become the third largest foreign contracts engineering companies.

A clear phenomena of China Aid can be viewed from an example taken from Labuan Angin Steamed Coal Power Plant project in North Sumatera, Indonesia. The local official head of the Power Plant, Aji Sutrisno, noted that the construction site was filled by Chinese workers. More than 1.300 Chinese workers were imported in the making of the projects. Not only human resources, China has also imported raw materials and other supporting materials for the construction. As a result, there was less opportunity for local people to be employed in the site project and lesser use of local materials as well. Another problem aroused from the intense uses of Mandarin language instead of Indonesian Bahasa or English. The local officials are hard, or almost never, make communication with the Chinese workers since nobody in the lower management understand foreign language other than Mandarin. The only communication was conducted between middle upper management. This is the implementation of the agreed bidding, which previously was won by China National Machinery Export and Import Corporation (CMEC).<sup>25</sup>

However, in the most developing nations in Southeast Asia, the illegal deal of bidding in the construction engineering sectors is highly practiced. The high number of corruption and gratification

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<sup>25</sup> Accessed from the private blog of Aji Sutrisno, Head of the Labuan Angin Power Plant, <http://teknologidanenergi.blogspot.com/2011/08/pltu-labuhan-angin.html>, on Friday, December, 23<sup>rd</sup>, 2011.



makes easier for everyone (i.e. construction engineering company) to drive the deal on winning the bidding. Government officials are being politicized by the need of highly capital mobilization of the local politicians, which as the result, is best places for greedy construction engineering company to make deal with. In Indonesia, for example, the quality of infrastructure are very bad, which were shown by the frequent road reparation and the brake of primary bridges, such as the Kutai Kertanegara bridge's broke in last November, 2011, in Kalimantan which took many victims. The amount of money spent for corruption is initially high to be compared to the number it uses for the construction projects itselfes.

The ASEAN's official Deputy Secretary General of ASEAN Economic Community also has deep interest in realization of the strong infrastructure building throughout the region. He, in his official commencement in the ASEAN-China Small and Medium Enterprise in Kuala Lumpur, June 2011, frankly declared that priority initiatives earmarked under the Master Plan on ASEAN Connectivity include the ASEAN Highway Network and Singapore-Kunming Rail Link.<sup>26</sup>

### **Dispatching China's Interest in Southeast Asia and its Characteristics**

Many economists contended that relationships between China and Southeast Asian countries has a strong bind on the application of positive sum game where China gets its material resources in terms of energy and raw materials while recipient countries are benefited from the incentive raise from infrastructures. As Dougherty and Pfaltzgraf (1997) contended in the game theory which has strong simulation with how goal-seeking actors, be they collectives or individuals, engage in purposeful action designed to achieve their posited objectives, provides a major focal point for the development theory based on preferences, strategies, and payoffs that can be modeled accurately.<sup>27</sup> Ideally, both China and Southeast Asian countries, have policies that undoubtedly beneficial for their own sake. In case of this infrastructure projects, while Southeast Asian countries get payoffs on the declining relations to United States as it proves from the previous explanation, it has its own gain in the substantial economic development since infrastructure plays an important part in economic growth. In terms of its own existing infrastructure projects, even if the construction process do not meet the international requirements, cannot be unilaterally

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<sup>26</sup> H.E. S. Puspanathan, "Maximising Trade Under ACFTA – How ASEAN and China Can Benefit from FTA", a ministerial meeting addresses, ASEAN-China SME Conference, June 8th, 2011, p. 7.

<sup>27</sup> James E. Dougherty and Robert L. Pfaltzgraff, Jr., *Contending Theories of International Relations: A Comprehensive Survey, Fourth Edition*, (New York: Addison Wesley Longman, Inc., 1997), p. 504.

prohibited to be used. Nevertheless, nobody is counted how the real nominal gain is equally distributed between parties. Roughly presuming, the infrastructure loan has benefited from interest rate while recipient countries have been burdened with it.

We have different view compared to many analysts who have argued that China deploys a "soft power" approach in its closer relations to recipient countries.<sup>28</sup> Soft Power is not merely about the take-and-give approach. In *Soft Power*, Nye (2004) has mentioned a complex power politics which applied not only power in terms of economic and military approach, but also the spread of such values. Many analysts have ignored the latter variable that, unlike many of Western donors, China has no interest in spreading particular values which long has been attached in conditionality of Western aid program. For instance, in Western style of aid, the process of internal recipient democratization, the application of the good governance, and its concern of environmental protection has along way to cope with. China's foreign aid policy reflects that the country only wants to do business relations. China's companies are benefited from its own aid program, while the impact and externalization of its infrastructure aid program has been put in additional benefits with the feasible movement of raw material and energy. For Africa, with weak government and the limited managerial capacity of local government, infrastructure facilities built on the land is not necessarily functioned well to improve growth.

In Southeast Asia, China's involvement has stronger intention for doing business too, but in order to be specifically focusing on the other part of production chain, which is marketing. The lesser demand of Chinese goods and services from North America and Europe is hoped to alternate the market to the South. Considering the implementation of ASEAN China Free Trade Area, which legally bind the Southeast Asian nations to integrate trading with China, and Southeast Asian economic survivability also become the primary reasons of China alternates its market to this region. While binding the recipient countries with the soft loan and giving incentives to its own contract engineering export markets, China is steadily creating its marketing network in Southeast Asia by consistently building infrastructure facilities.

China is highly interested in expanding its markets in Southeast Asia. However the strong institution within Southeast Asian nations makes China is prudently implementing its aid program. ASEAN, as the formal bridge and empowerment of the Southeast Asian Nations, have so far been

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<sup>28</sup> Cf. Teresita Cruz-Del Rosario, "Enter the Dragon Softly: Chinese Aid in South, Southeast, and Central Asia", in *Working Paper No: LKYSPP11-04*, Lee Kwan Yew School of Public Policy Working Paper Series, June, 2011.



the backbone of Southeast Asia's diplomatic vehicle to conduct strong relations both to the West and the East. ASEAN historically, politically, and economically, has strong connection to the West which makes this historical bind as difficulties for China to expand its market in Southeast Asia. Some analysts keep arguing that the United States and China has been competing its economic and, lately, military power throughout Southeast Asian region. However, looking at the current China's modus operandi in cooperation, it shows that conflicts between countries will only contribute to further national economic performance decline.

By China further concentration to the developing world, especially in Southeast Asia, it can support the whole production chain on its production system. Its major involvement in aid recipient countries is presumed to retain the continuity of its energy-production-marketing accessibility. In Africa, China has been long focusing on the access of energy and raw material, such as oil and coal. As raw materials are obtained from developing world, China has built major highways in support of the mobility of both energy and raw materials supply.

China's government supports to China's domestic construction market also give incentives to the construction sector growth including State Owned Enterprises (SOEs) in construction sectors. Prigol and Liu mentioned that there are two reasons why China's construction market is very potential. First, China is the world third largest construction market in 2007 and potentially growing. Secondly, China also becomes the top construction markets in developing world above Russia and India. Nevertheless, China's government prioritizes supports to allocate these abundant construction projects to the national SOE. The growing SOE such as CSCEC has empowered itself by government construction priorities and internationalizing itself due to the large amount of assets. CSCEC just listed at Shanghai Stock Exchange in July, with a share value of over 5 billion Euro, signed a 1.2 billion Euro contract together with Tishman Construction Group for a construction project in Atlantic City, USA with Revel Entertainment Group. CSCEC holds 51% share of the J.V., construction time two years.<sup>29</sup>

As a China's "Going Global" strategy, the government combines the foreign aid policy with its growing construction industries in a framework of giving incentives to its own SOE. That is in the Chinese's Labuan Angin Coal Mining case in Indonesia, the whole site projects become a little China

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<sup>29</sup> Joachim Prigol and Dr. George Liu, "China's Construction Business: Built on Sand or Rock?", *Alpine Mayreder Construction Co. Ltd.*, Presentation for Austria Connect – 2009 in China, September 19<sup>th</sup>, 2009, Shenzhen, p. 12.

since the Chinese company used its own tools, Chinese labor, and also other Chinese supporting subcontractors. In this term, China has also neglected the technology transfer and capacity improvement for the local companies or actors. In other words, China builds its own infrastructure without paying attention to empowering the local people. The only ground norm of China in developing this strategy was inspired from Deng's project of socialist modernisation dictated a focus on economic investments and a non-conflictual approach to international politics, Chinese companies then started competing for commercial contracts in Africa,<sup>30</sup> as well as Southeast Asia.

Based on its economic interests, China's aid allocation varies to Africa, Southeast Asia, and Latin America with 71.56 %, 26.83 %, and 1.6 %, respectively. China mainly focuses on two sectors: natural resources extraction and production (43.89 %); and infrastructure and public works (42.35 %). Furthermore, China allocates 1.3 % of aid to humanitarian sector, 0.23 % to military sector, and 0.02 % to technical assistance. However, China's aid allocation by income group which takes 10.58 % of total aid has not been specified from 2002 to 2007.<sup>31</sup>

China had been in a slower growth during the Global Financial Crisis in 2008. Its growth had started to recover in 2010 indicated by the rise of external demand. China also has to secure its market accessibility at the time American and European economies are in principle downturn. The disequilibrium of massive production and the limited markets makes China turned its face to the South, and in the long term, views Southeast Asia as a potential yet sustainable market.

It is not necessarily about the function of the social relationships within a world system approach. However, the China engagement in controlling capital movement, market openings, and the energy access to its own economic stance has an imperialistic state of nature.<sup>32</sup> It is that the social forces of the ruling classes in the China's SOE is dispersed along the South, Africa and Southeast Asia. Using Africa as a test case and breeding for Chinese government-corporate coallitions to be practiced in ASEAN. But the lack of further approach in building the strategic policy

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<sup>30</sup> Kristian Kjøllestad and Anne Welle-Strand, "Foreign Aid Strategies: China Taking Over?", *Asian Social Science*, (Vol.06, No.10), October 2010, p. 5.

<sup>31</sup> Eun Mee Kim, "ODA Flows to the LLDCs in Comparative Perspectives in Asia", paper presented at the United Nations ESCAP "High-level Asia-Pacific Policy Dialogue on the Implementation of the Almaty Programme of Action and Other Development Gaps Faced by the Landlocked Developing Countries (LLDCs)" in Ulanbaatar, Mongolia on April 12-14, 2011, p. 6.

<sup>32</sup> James Petras, "Dependency and the World System Theory: A Critique and New Directions", *Latin American Perspectives*, (Vol. 8, No. 3/4. Dependency and Marxism), Late Summer-Autumn, 1981), pp. 154-155.



adjustment through China’s value is not, however, a complete long-term new imperialistic approach.

In Western based aid, most OECD donors implement several conditionality such as promotion of democracy, institutional change, good corporate governance, climate change prevention, and so forth. China also increase the burden that the third world has to hold from the large amount of its concessional loan which practically has the highest interest if compared to the other interest rate applied in other donors. If it is true that more Chinese are dispersed to the South as the implication of this foreign aid policies, China also has tendency in creating a traditional expansionary approach under the business interest encroachment. China’s approach has stronger bind on business-to-business approach in their “mutual benefits” nomenclature of their foreign aid direction. However, there are no single pattern to depict how this benefits can equally be measured. The China’s expansion to the South can have no guarantee of shaping an equal dependence. By examining this kind of measurement, China is actually not only expanding its market and energy access to the third world, but also expanding its influence to the South.

Table 2. Principle of China’s Foreign Aid Policy, Focal Points and Practices

China’s Principles of Foreign Aid Policy	Focal Points	Implementation/Practice
Unremittingly helping recipient countries build up their self-development capacity. Practice has proved that a country’s development depends mainly on its own strength. In providing foreign aid, China does its best to help recipient countries to foster local personnel and technical forces, build infrastructure, and develop and use domestic resources, so as to lay a foundation for future development and embarkation on the road of self-reliance and independent development.	(Continuity – Self-Development – Domestic Stimulus)	China draws its loan and infrastructure by imposing its own enterprises with less contribution of enterprises from the recipient countries. Labuan Angin Coal Mining in Indonesia, and the Suramadu Bridge accross Java and Madura Island are mostly constructed by local China’s company.
Imposing no political conditions. China upholds the Five Principles of Peaceful Coexistence,	(Non-interference, unconsiderably its	It is worried by several scholars and experts that the emerging donors,

International Conference on "The Rise of China and the Future of Regional Affairs in East Asia"  
Universitas Indonesia, March 1<sup>st</sup>, 2012, 9 a.m. to 5 p.m.

China's Principles of Foreign Aid Policy	Focal Points	Implementation/Practice
respects recipient countries' right to independently select their own path and model of development, and believes that every country should explore a development path suitable to its actual conditions. China never uses foreign aid as a means to interfere in recipient countries' internal affairs or seek political privileges for itself.	local political condition)	such as China, will play greater role in empowering non-democratic practice in the recipient countries.
Adhering to equality, mutual benefit and common development. China maintains that foreign aid is mutual help between developing countries, focuses on practical effects, accommodates recipient countries' interests, and strives to promote friendly bilateral relations and mutual benefit through economic and technical cooperation with other developing countries.	(Creating stronger interdependence)	Its foreign aid in the resources rich countries is hoped to be mutually supporting China's long term demand on the energy and the
Remaining realistic while striving for the best. China provides foreign aid within the reach of its abilities in accordance with its national conditions. Giving full play to its comparative advantages, China does its utmost to tailor its aid to the actual needs of recipient countries.	(Declaring the limited amount of funding, hence hope mutual benefits gained from relations)	China's Foreign Aid is growing steadily and the OECD DAC has declared that the existence of emerging donors are catching up with number that of spent by the Member of OECD DAC. However, this point has noted that China gives preference to its national priority of financial condition.



China's Principles of Foreign Aid Policy	Focal Points	Implementation/Practice
Keeping pace with the times and paying attention to reform and innovation. China adapts its foreign aid to the development of both domestic and international situations, pays attention to summarizing experiences, makes innovations in the field of foreign aid, and promptly adjusts and reforms the management mechanism, so as to constantly improve its foreign aid work.	(In progress of improving its Foreign Aid performance)	China continuously improves its foreign aid. Some researchers believes that China's foreign aid nominal are greater than its exposure.

Source: Arranged by Authors from "China's Foreign Aid: White Paper", (April, 21<sup>st</sup>, 2011)

However, regional arrangement does matter for the China's engagement of the aid. China's practice of aid policy in Southeast Asia has a long way to be compared that of practiced in Africa. In Africa, China who was first initiating the extra-regional arrangement revitalization through FOCAC, regarding the weak coherence of the African Union. In this cooperation arrangement, China decides and conducts its policies of aid adjustment concretely, as if Chinese governs its own territory to improve such development within it. The centrality of China in this regional forum has created a new social formation in Africa that makes Chinese companies' feasible to get in.

However, Southeast Asia has its own strong regional arrangement through ASEAN. The complexities of ASEAN relations to the states of other regions has put more difficulties for China to apply its African approach. ASEAN has currently also become the central actor in driving the East Asian Summit within which, other world's dominant actors such as U.S., Russia, and Australia have been engaged. In this occasion, regardless of the endless internal conflicts between ASEAN member states, China has to face the U.S. and its alliances to enter Southeast Asia regionally. China, moreover, nurtures the existing conflicts within the region by contributing stubborn claims on the South China Sea over the Spratly island. According to the previous facts captured from this inquiry, We formulated the most revealing differences of China infrastructure aid in Africa and Southeast Asia as follows.

**Table 3. The Most Revealing Differences of China Infrastructure Aid in Africa and Southeast Asia**

Means	Africa	Southeast Asia
Bilateral Agreement	Yes	Yes
Regional Arrangement	Yes	No
Political Conditionality	No	No
Economic Externalities	Yes	Yes
Spread of Value	No	No

Source: Authors

Chinese government official on its Foreign Aid White Book proclaimed by the end of 2009 that China had provided a total of 256.29 billion yuan in aid to foreign countries, including 106.2 billion yuan in grants, 76.54 billion yuan in interest-free loans and 73.55 billion yuan in concessional loans.<sup>33</sup> However this larger part of concessional loans has been in a great concern since China drew agreements with major Least Developed Countries in Africa which has a weak fiscal and monetary supervision and capacity. The burden that Africans hold under these concessional loans will be paid-off with further agreement on the cooperation with China. However, China's aid is not necessarily be followed with such a neoliberal adjustment otherwise strongly attached in Western based aid program. China has not supplemented any value in its aid. Moreover, China only imposes in creating incentives both for its own construction industries, as well as undertakes feasibility for its raw material and energy development.

**Table 4. Comparison between ODA originated from OECD Aid Donors and China**

	Government to Governmnet	Financing through Development Agency	Strong Links to Donor Country Economy	Concessional or Favorable Lending Terms	Receives Payment of Debt in Kind	Grant Element of at Least 25%	Private or Corporate financing
OECD Aid	☑	☑	—	☑	—	☑	—

<sup>33</sup> Information Office of the State Council – The People's Republic of China, *Op.Cit.*, p. 4.



Donors							
China	<input checked="" type="checkbox"/>	–	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	–	–

Source: Penny Davis (2008), excerpt from Thomas Lum, "China Assistance and Government Sponsored Investment Activities in Africa, Latin America, and Southeast Asia", *Congressional Research Service*, R40940, November 25, 2009.

Many non-DAC Donors do not describe their cooperative measurement in a donor-recipient relationship term. Many prefer to consider themselves as engaging in "partnerships" within South-South context based on mutual benefit and learning and through cost sharing or resources. Non-DAC Donors continue to receive, as well as provide, development assistance.<sup>34</sup> Many of these non-DAC donors are also engaging in a South-South cooperation while at the same time fundamental asymmetries of income and poverty haunt within their national economies.

Conclusion

It is considerably convincing that beside China has been improving its investment on the construction projects in several other regions, construction engineering sector is taking larger part in China's economy. This paper has successfully examined the motives, characteristics and driving forces behind China infrastructure aid projects in African and Southeast Asian countries. Our main contribution is by revealing the differences between China infrastructure aid projects in African and Southeast Asian countries. Chinese government improves its soft loan to African region in exchange of infrastructure development.

In the African region which enormously has a spreading underdeveloped society combining with the semi-authoritarian governance, China is getting through creating many of agreements with the governments including actively involved in regional arrangement in Africa. She can drive them relatively easy. Meanwhile, in Southeast Asian countries China's approach has stronger bind on business-to-business approach and the presence of ASEAN as strong regional arrangement has required China to take more creative actions in dealing with ASEAN countries as well as other major powers in the region. Finally, the spread of China infrastructure aid projects in Southeast Asia has become her effective diplomatic and business tools as China has not only been expanding its market and energy access to the third world, but also expanding its influence to the South.

<sup>34</sup> Consultating Findings Document Informal Working Group on "non-DAC Providers of Development Assistance", *Third High Level Forum on Aid Effectiveness (HLF-3)*, Accra, Ghana, 2-4 September 2008., p.7.

